

REPORT OF
FINANCIAL EXAMINATION

CIGNA HealthCare of St. Louis, Inc.



AS OF
DECEMBER 31, 2003

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
<i>SCOPE OF EXAMINATION</i>	<i>1</i>
Period Covered	1
Procedures	2
Comments - Previous Examination	2
<i>HISTORY</i>	6
General	6
Capital Stock	7
Dividends	7
Management	7
Conflict of Interest	8
Corporate Records	9
Acquisitions, Mergers and Major Corporate Events	9
Surplus Debentures	9
<i>AFFILIATED COMPANIES</i>	9
Holding Company, Subsidiaries and Affiliates	9
Organizational Chart.....	10
Affiliated Transactions.....	11
Management Services Agreement	11
Premium Billing Authorization.....	11
Pharmacy Claims Payment	11
Dental Consultation Agreement.....	11
Investment Advisory Agreement	12
Consolidated Federal Income Tax Agreement	12
Network Access Agreement	12
Mental Health and/or Substance Abuse Service Agreement	13
Intracorp Agreement	13
Participating Pharmacy Agreement	14
<i>FIDELITY BOND & OTHER INSURANCE</i>	14
<i>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</i>	15
<i>STATUTORY DEPOSITS</i>	15
Deposits with the State of Missouri	15
Deposits with Other States	16
<i>INSURANCE PRODUCTS AND RELATED PRACTICES</i>	16
Territory and Plan of Operation	16

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders	17
REINSURANCE	17
General.....	17
Assumed	18
Ceded.....	18
Excess of Loss Agreement.....	18
ACCOUNTS AND RECORDS.....	19
General.....	19
Independent Auditor	19
Independent Actuary.....	19
Annual Statement Reporting Exception: Schedule Y-Part 2.....	20
Annual Statement Reporting Exception: Netting of Intercompany Balances	20
FINANCIAL STATEMENTS	21
ASSETS	22
LIABILITIES, SURPLUS AND OTHER FUNDS	23
STATEMENT OF INCOME.....	24
CAPITAL AND SURPLUS	25
EXAMINATION CHANGES.....	26
NOTES TO FINANCIAL STATEMENTS.....	26
GENERAL COMMENTS AND/OR RECOMMENDATIONS	27
SUBSEQUENT EVENTS	28
ACKNOWLEDGMENT.....	<i>Error! Bookmark not defined.</i>
VERIFICATION.....	<i>Error! Bookmark not defined.</i>
SUPERVISION.....	<i>Error! Bookmark not defined.</i>

January 20, 2005
Hartford, Connecticut

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Financial Services
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Acting Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

CIGNA HealthCare of St. Louis, Inc.

hereinafter referred to as such or as "CIGNA-STL" or as the "Company." The Company's home office is located at 900 Cottage Grove Road, Hartford, Connecticut, telephone number (860) 226-2300. This examination began on October 11, 2004 and concluded on January 20, 2005.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Company was made as of December 31, 2000, by examiners from the state of Missouri representing the Midwestern Zone

of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2003, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the state of Missouri prevailed.

The Missouri Department of Insurance engaged an independent actuary, Timothy F. Harris, FCAS, MAAA, with Milliman USA, to perform a review of the Company's reserve calculations and reserving methodologies.

Comments - Previous Examination

Listed below are the comments and recommendations taken from the prior Report of Financial Examination made as of December 31, 2000. The responses or actions taken by the Company are also described below.

1. *Comment: History (Management)*

The prior examination report noted “the Company is in violation of its own Bylaws by not filling the vacancy of president since March 3, 2001. We direct the Company to elect a president immediately.”

Company Response:

“We respectfully disagree that we are in violation of our own Bylaws by not electing a President during the vacancy. During the vacancy, Mr. Bert Wagener served as the acting General Manager until November 5, 2001 when CIGNA HealthCare of St. Louis, Inc. was made part of the Southwest Region. Mr. Michael Mirt assumed that role beginning on November 5, 2001 as he served as the General Manager for the Southwest Region. On February 4, 2002, Mr. Rick Grizzle assumed the role of President & General Manager of CIGNA HealthCare of St. Louis, Inc. There is no requirement in our Bylaws to immediately elect officers to fill vacancies.”

Current Findings:

The position of President (and other offices) have been filled regularly since September 2001, therefore, no further comment regarding this item is necessary.

2. *Comment: Accounts and Records*

“The Company violated 20 CSR 200-4.010 (Books, Records, Accounts and Vouchers) by not having their financial records centrally located and by not providing information within five working days.”

Company Response:

“In that we are a nationwide provider of health services, we have created various centralized business functions which are performed throughout the country. In this respect we

are able to maintain streamlined and cost-effective process for all our business on a nationwide basis despite the fact that these locations may be remote from our Bloomfield office. Our standard operating procedure is to provide information in response to all requests within five business days. In most instances, requests are met well ahead of schedule.”

Current Findings:

The current examination again noted extended delays regarding company responses to examination requests. For example, the examiners sent the Company a request for copies of all December 2003 bank statements and reconciliations on September 16, 2004 (approximately 3 weeks before examination fieldwork began). Examiners did not receive copies of one of the bank statements / reconciliations until December 18, 2004, even though the examiners reminded the Company on a bi-weekly basis that this request was outstanding. Time delays were also noted on other requests, with an estimated response time of approximately two weeks per request. It is recommended that the Company take steps to improve response time to examination requests as this could significantly reduce the length of future examinations.

3. *Comment: Accounts and Records*

“The Company also violated Section 354.205 2.(2) RSMo (Examination of Insurers), which compels insurers to “. . provide to the examiners . . . timely convenient and free access at all reasonable hours at its offices to all books, records, accounts, papers, documents . . .” The examiners were not provided free access.”

Company Response:

“We acknowledge the examiners’ right to free access to documentation. There was no intention on our part to limit access to any and all necessary documentation that was requested.”

Current Findings:

No restrictions to information was noted during the current examination.

4. *Comment: Accounts and Records*

“In addition, the examiners never received copies of conflict of interest disclosure statements for 1997. The Company is directed to make certain that these documents are retained for all the years between examinations. These violations caused the examination to last longer than necessary and caused higher examination expenses on the part of the Company than necessary.”

Company Response:

“We acknowledge the requirement to maintain documents for all the years between examinations. At the time of the request, our 1997 conflict of interest disclosure statements had already been sent to storage in accordance with standard record retention rules to maintain immediate access to the most current three years. We had ready access to years 1998 through and including 2001 and these documents were delivered as required.”

Current Findings:

No exceptions were noted in obtaining information from previous years during the current examination. However, as noted in item two above, the examiners experienced delays in obtaining information again causing the examination to last longer than necessary for a company of this size.

5. *Comment: Accounts and Records*

“For future examinations, the Company is advised that the main contact person should act as a facilitator in contacting the relevant employees rather than as a “gate keeper” preventing contact with relevant employees.”

Company Response:

“We have created what we believe is a procedure whereby we have provided examiners with a one-stop shop for all their requests. Maintaining a centralized individual especially in the financial area for financial examinations makes sense to us. This allows for a coordinated effort on our Company’s part to provide accurate, complete and timely information during the examination process and to provide the documentation being requested. The intention of our process is to simplify the requests for production during examination and is not in any way to hinder or prevent access or contact with any and all relevant employees that may be necessary in fulfilling the needs of the examiners.”

Current Findings:

The examiners were not prevented from contacting relevant employees during the current examination.

HISTORY

General

CIGNA HealthCare of St. Louis, Inc. was incorporated in the state of Missouri on May 2, 1985, and was certified as a Health Maintenance Organization under Sections 354.400 to 354.550 RSMo (Health Maintenance Organizations). The Company commenced business on February 1, 1986, and was federally qualified on April 14, 1986.

Capital Stock

The Company has the authority to issue 1,000 shares of \$1 par value common stock. There were 1,000 shares issued and outstanding on December 31, 2003, for a balance of \$1,000 in the Company's capital stock account. All 1,000 shares are owned by Healthsource, Inc., a fourth tier subsidiary of CIGNA Corporation, the ultimate parent.

Dividends

The Company has declared and paid dividends to shareholders since 1994 as follows:

	<u>Cash</u>
1994	\$ 300,000
1995	1,200,000
1996	3,000,000
1998	1,500,000
2004	<u>4,900,000</u>
Total	<u>\$10,900,000</u>

Management

The bylaws of the Company call for no less than one, nor more than six directors. At December 31, 2003, the Company had three (3) directors.

The three members of the board of directors serving at December 31, 2003, were as follows:

<u>Name</u>	<u>Location</u>	<u>Business Affiliation</u>
Razia S. Hashmi, M.D.	Hartford, CT	Vice President-National Medical Director CIGNA HealthCare
Katherine K. Fry	Hartford, CT	Vice President-Chief Accounting Officer CIGNA HealthCare
William A. Schaffer, M.D.	Hartford, CT	Senior Vice President-Chief Medical Officer CIGNA HealthCare

The officers appointed and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Office</u>
Daryl W. Edmonds	President
Susan L. Cooper	Secretary
Lynn M. Wytas	Treasurer
Katherine K. Fry	Vice President
Robert R. Robinson	Vice President
Travis H. Brashear	Vice President
Bach Mai Thi Thai	Vice President
Alan M. Gottlieb	Vice President
Roberta P. Schmidt	Vice President
David M. Porcello	Vice President
Glenn M. Gerhard	Vice President
Razia S. Hashmi	Vice President
Lynn M. Wytas	Vice President
Elizabeth S. Kraft, M.D.	Vice President
Edward Tanida	Vice President
Arthur D. Bird	Vice President
John P. Frey	Vice President
Barry R. McHale	Vice President
Cesar E. Penaherrera	Vice President
Lawrence I. Wolk	Vice President

Conflict of Interest

Conflict of interest disclosure statements are executed annually by all board members and officers. A review of the conflict of interest disclosure statements indicated no material conflicts.

Corporate Records

The Articles of Incorporation and the Bylaws were reviewed. No amendments were made to the Articles of Incorporation or the Bylaws during the period under examination.

The minutes of the meetings of the shareholder and board of directors were reviewed for the period under examination. The minutes of the meetings appear to reflect proper approval of the transactions and corporate events for the period under examination. The board of directors acknowledged their review of the 2000 Missouri Department of Insurance (MDI) Report of Financial Condition in April 2002.

Acquisitions, Mergers and Major Corporate Events

None

Surplus Debentures

The Company does not have any surplus debentures issued or outstanding.

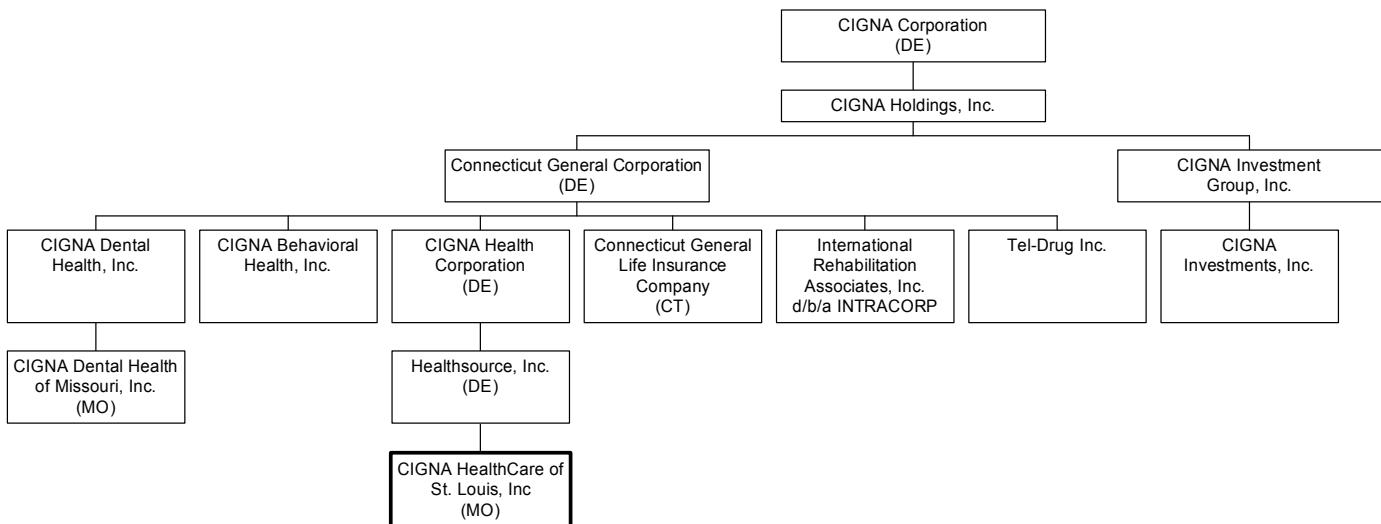
AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). The ultimate controlling person in the insurance holding company system is CIGNA Corporation, which was incorporated in Delaware in 1981 and is registered on the following exchanges: New York Stock Exchange, Pacific Exchange and Philadelphia Stock Exchange under ticker symbol CI. CIGNA Corporation was formed by the merging of Connecticut General Insurance Corporation and Insurance Company of North America (the first marine insurance company in the United States).

Organizational Chart

The following is a portion of the entire CIGNA Corporation organizational chart. Only those companies directly related to CIGNA HealthCare of St. Louis, Inc., or with which CIGNA-STL has direct management or reinsurance contracts are included. All companies are 100% owned by their immediate parent unless otherwise noted.



Affiliated Transactions

1. Type: *Management Services Agreement*
Parties: CIGNA Health Corporation (formerly CIGNA HealthCare, Inc.) and subsidiaries or affiliates
Effective: January 1, 1994, amended January 1, 1996, second amendment January 1, 2001
Terms: CIGNA Health Corporation agrees to provide to its health plan affiliates the following management services: sales support, underwriting, personnel, employee recruiting, staffing, claims processing, tax planning, tax preparation, membership, banking, corporate training, administrative, payroll, legal, marketing support, actuarial, accounting, reporting, real estate/leasing, procurement of insurance coverage, premium billing and collection.
Rate(s): Each month, CIGNA Health Corporation will bill each affiliate the amount due for the services provided to that affiliate for the preceding month, including any interest due. The monthly amount charged shall be calculated using an approved allocation methodology which allocates expenses based upon factors which may include the projected membership and/or projected usage of services by the affiliate.
2. Type: *Premium Billing Authorization*
Parties: Connecticut General Life Insurance Company and the subsidiaries of CIGNA Health Corporation
Effective: November 1, 1996
Terms: Connecticut General Life Insurance Company is authorized to collect premium due to the health plan.
3. Type: *Pharmacy Claims Payment*
Parties: CIGNA HealthCare of St. Louis, Inc. and CIGNA Health Corporation
Effective: January 1, 1998
Terms: CIGNA HealthCare of St. Louis, Inc. arranges for the submission of pharmacy claims to CIGNA Health Corporation for payment, and later reimburses CIGNA Health Corporation.
4. Type: *Dental Consultation Agreement*
Parties: Connecticut General Life Insurance Company, International Rehabilitation Associates, Inc., and the subsidiaries of CIGNA Health Corporation and CIGNA Dental Health, Inc.

Effective: October 1, 2000
Terms: CIGNA Dental Health, Inc. shall provide dental consultations at the request of CIGNA Health Corporation with respect to select dental cases.
Rate(s): The cost is \$80 for each individual dental consultation.

5. Type: *Investment Advisory Agreement*
Parties: CIGNA Investments, Inc. and CIGNA HealthCare of St. Louis, Inc.
Effective: March 1, 1995, amended January 11, 2000 to change the name from CIGNA Investments, Inc. to TimesSquare Capital Management, Inc., amended November 28, 2001 to assign all rights and obligations to a newly formed corporation, CIGNA Investments, Inc.
Terms: CIGNA Investments, Inc. acts as investment advisor to CIGNA HealthCare of St. Louis, Inc.
Rate(s): Annual rate of 9.76 basis points billed quarterly in arrears on net average assets under management for that quarter. Rate may be changed if agreed to in writing by an officer of CIGNA HealthCare of St. Louis, Inc.

6. Type: *Consolidated Federal Income Tax Agreement*
Parties: CIGNA Corporation and each of its subsidiaries
Effective: January 1, 1997 (amended and restated agreement originally effective as of April 1, 1982)
Terms: The subsidiaries make tax payments to CIGNA Corporation based on the subsidiary's taxable income. In the case of a taxable loss, CIGNA Corporation will pay the subsidiary a refund based on the subsidiary's taxable loss, but only to the extent that CIGNA Corporation is able to use the loss in the consolidated tax return.

7. Type: *Network Access Agreement*
Parties: Subsidiaries of CIGNA Corporation and Connecticut General Life Insurance Company
Effective: January 1, 1998, amended June 1, 2001.
Terms: Allows Connecticut General Life Insurance Company and participating HMOs to use the networks of participating providers of other participating HMOs. The HMOs may also provide administrative services associated with network access (such as credentialing), if it is appropriately licensed to do so.

8. Type: *Mental Health and/or Substance Abuse Service Agreement*

Parties: CIGNA Behavioral Health, Inc. (formerly MCC Companies, Inc.) and CIGNA Health Corporation (formerly CIGNA Healthplan, Inc.) on behalf of its subsidiaries and affiliates.

Effective: January 1, 1990. Eight amendments have been added with the most recent amendment dated October 1, 1999 indicating a name change from MCC Companies, Inc. to CIGNA Behavioral Health, Inc. and provisional changes. Amendment One changed CIGNA Healthplan, Inc. to CIGNA HealthCare, Inc. Amendment Four changed CIGNA HealthCare, Inc. to CIGNA Health Corporation.

Terms: CIGNA Behavioral Health, Inc. provides mental health and substance abuse services to the subsidiaries of CIGNA Health Corporation.

Rate(s): For each covered enrollee, the subsidiary shall pay each month the amount agreed upon by the parties as set forth in the attachment to the agreement. Such payments will be made not later than the 15th of the month in which said payments are due and will include adjustments to previous months payments caused by reconciliation of enrollment numbers.

9. Type: *Intracorp Agreement*

Parties: International Rehabilitation Associates, Inc. (d/b/a Intracorp), Connecticut General Life Insurance Company and CIGNA Health Corporation on behalf of certain of its subsidiaries including CIGNA HealthCare of St. Louis, Inc.

Effective: January 1, 2001, amended March 11, 2004 to update services performed and the related fees.

Terms: The primary purpose of the Agreement is to afford affiliated companies access to certain consultative services with respect to utilization, case, demand, disease and care management services and any other consultative services offered by Intracorp in order to administer health care coverage plans.

Rate(s): Fees are charged based on a schedule and paid on a per member per month basis for each type of service provided. The fee schedule was submitted to the Missouri Department of Insurance.

Exception: It was noted that prior to 2003, certain case management and utilization services were performed directly by employees at the individual health plans. In 2003, a transition was made whereby Intracorp (an affiliate) performs these services for the health plans for a per member per month fee. The Company notified MDI (who did not disapprove the arrangement) in March of 2004. Company officials stated that during the 2003 transition period, Intracorp charged the health plans for direct expenses incurred. It is noted that the Company violated Section 382.195 RSMo (Prohibited transactions, exceptions) by entering this service arrangement without first

notifying the Missouri Department of Insurance. The Company is directed to ensure that all future arrangements with affiliates meeting the provisions of Section 382.195 RSMo are appropriately filed with the Missouri Department of Insurance at least thirty days prior to entering such transactions.

10. Type: *Participating Pharmacy Agreement*

Parties: CIGNA Health Corporation (formerly CIGNA HealthCare, Inc.) subsidiaries and Tel-Drug, Inc.

Effective: October 1, 1997. Amendments October 1, 1999 and January 1, 2001.

Terms: Tel-Drug, Inc. provides mail order pharmaceutical services to the members of the subsidiaries of CIGNA Health Corporation.

Rate(s): Reimbursement is the lesser of 1) ingredient cost plus dispensing fee less copayment, coinsurance or deductible or 2) Tel-Drug, Inc.'s usual and customary retail price.

FIDELITY BOND & OTHER INSURANCE

CIGNA HealthCare of St. Louis, Inc. is a named insured on a \$25,000,000 crime and fidelity policy, with a zero deductible, issued to CIGNA Corporation. The fidelity bond meets the suggested minimum coverage of the NAIC and the requirements of Section 354.425 RSMo "Surety bond requirements."

The Company is also a named insured on policies taken out by CIGNA Corporation for the following types of coverage: general liability, workers' compensation, managed healthcare professional liability, commercial property, commercial automobile, errors and omissions, and directors and officers liability. CIGNA Corporation appears to provide adequate coverage for CIGNA HealthCare of St. Louis, Inc.'s exposed risk.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. All personnel services are provided by CIGNA Corporation through the Management Services Agreement. CIGNA Corporation provides its employees with benefits such as vacation and insurance products comparable to the benefits provided by other companies in the insurance industry.

All employees are covered by the CIGNA Pension Plan, a defined benefit plan. Employees also may participate in a 401(k) plan, in which the Company provides a fifty-percent match on the first six-percent of eligible earnings contributed to the plan. In 2000, CIGNA Corporation began to offer post-retirement health care and life insurance benefit plans. CIGNA HealthCare of St. Louis, Inc. has no legal obligation for benefits provided under the retirement and post-retirement plans.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 354.410 RSMo "Trust deposits."

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
St. Louis, MO Water	<u>\$325,000</u>	<u>\$352,625</u>	<u>\$323,906</u>
TOTALS	<u>\$325,000</u>	<u>\$352,625</u>	<u>\$323,906</u>

Deposits with Other States

The Company is also licensed in the state of Illinois. Funds on deposit with the state of Illinois as of December 31, 2003 were as follows.

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	<u>\$360,000</u>	<u>\$381,294</u>	<u>\$368,294</u>
TOTALS	<u>\$360,000</u>	<u>\$381,294</u>	<u>\$368,294</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed as an HMO with the Missouri Department of Insurance under Chapter 354 RSMo (Health service corporations, health maintenance organizations and prepaid dental plans) and operates as an individual practice association model.

The Company offers a range of Point of Service (POS) and gatekeeper HMO managed care products. The Company markets its products mainly to employer groups of 150 or more. The Company does not market to individuals or participate in the Medicaid or Medicare markets. The Company also contracts with Connecticut General Life Insurance Company (CGLIC), an affiliate, to help administer an indemnity-based product called FlexCare. CGLIC offers the FlexCare product to employer groups on an insured or self-insured funding basis. The Company receives an administrative fee for the use of its provider network and the facilitation of claims payments.

The Company is licensed in the states of Missouri and Illinois. The Company's Missouri service area includes the City of St. Louis, St. Louis County, and twelve other neighboring counties. The Illinois service area consists of twelve counties in southwestern Illinois.

Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. The most recent Missouri Market Conduct examination covered the period of January 1, 1999 through December 31, 1999, and was completed on March 12, 2001. The examination disclosed several non-compliance issues subject to penalty, none of which had a material effect on the financial condition of the Company. The Market Conduct staff also conducted a limited scope examination in 2004 relating to the timeliness of claim payments. A final report has not yet been issued for this examination. Any fines and/or additional interest payments resulting from this examination are not expected to have a material effect on the financial condition of the Company.

REINSURANCE

General

Premiums reported during the period under examination were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Direct Business	\$ 30,761,478	\$ 33,347,615	\$ 28,337,533
Reinsurance Assumed	-	-	-
Reinsurance Ceded	197,006	408,604	269,134
Net Premiums Earned	<u>\$ 30,564,472</u>	<u>\$ 32,939,011</u>	<u>\$ 28,068,399</u>

Assumed

The Company did not assume any reinsurance during the period under examination.

Ceded

Excess of Loss Agreement

The Company is party to an excess of loss reinsurance agreement with Connecticut General Life Insurance Company. Effective January 1, 2003, the retention limit for this coverage was \$250,000 (previous retention limit was \$150,000). Once the retention limit has been reached, the reinsurer will cover eighty-percent of eligible services. The agreement establishes maximum premium rates that are adjusted based on experience. The maximum premium rate for 2003 was \$1.00 per member per month for commercial business and \$0.10 per member per month for Medicare business. The agreement also establishes a bank account for paying claims with a maximum charge of \$8.00 and \$4.00 per member per month for commercial and Medicare members respectively. The actual premium rate charged for 2003 was \$0.10 per member per month. The actual amount charged to fund the bank account for 2003 was \$2.65 per member per month. CIGNA HealthCare of St. Louis, Inc. did not have any Medicare business during the current examination period.

The reinsurance agreement and subsequent amendments were properly submitted to and not disapproved by the Missouri Department of Insurance.

ACCOUNTS AND RECORDS

General

The Company maintains its general ledger on Oracle General Ledger system software. Internally developed software systems are used to track premium, enrollment, eligibility and claims information.

Independent Auditor

The Company's financial statements were audited by the CPA firm PricewaterhouseCoopers LLP as part of the CIGNA Corporation's company-wide audit for the years ending 2001 to 2003. A review was made of the workpapers of the last CPA audit. Limited use of these workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuary

Claims related reserves and other actuarial items are reviewed and certified by Ruth Ann Woodley, FSA, Assistant Vice President and Actuary of Connecticut General Life Insurance Company, an affiliate of CIGNA HealthCare of St. Louis, Inc. Consulting actuary, Timothy F. Harris, FCAS, MAAA, with Milliman USA, was retained by the Missouri Department of Insurance to review the adequacy of reserves and other related liabilities.

Annual Statement Reporting Exception: Schedule Y-Part 2

It was noted that the Company did not include all revenues/expenditures incurred under management agreements, service contracts, etc. in column 8 of Schedule Y-Part 2 of the 2003 Annual Statement. The Company did not include \$16,166,075 paid to Cigna Health Corporation under the Management Services Agreement. The Company also did not include \$16,800,875 received in fees from Connecticut General Life Insurance Company related to the Network Access Agreement. Finally, the Company did not include \$1,163,524 paid to International Rehabilitation Association related to the Flexcare product that was related to the Intercompany Service Agreement. It is recommended that in future Annual Statements, that the Company follow NAIC Annual Statement Instructions which state that Column 8 of Schedule Y-Part 2 should include "all revenues/expenditures under management agreements, service contract, etc" as well as "contracts for services provided by the insurer or purchased by the insurer from other affiliates."

Annual Statement Reporting Exception: Netting of Intercompany Balances

It was noted that the Company incorrectly reported the net balance of amounts payable and receivable with various affiliates on asset line 20 of the 2003 Annual Statement. The Company should have reported these balances on a gross basis, as there was no valid right of offset between the entities. SSAP 64 states "assets and liabilities shall be offset and reported net only when a valid right of setoff exists." General ledger accounts 271510, 271530, 271540, 271560 and 244100 had credit balances at December 31, 2003 and should have been reported as payable to affiliates. In addition, the balance in intercompany account 261000 includes both payables and receivable balances to different affiliates; the Company should create separate

general ledger accounts for each affiliate regarding items currently being booked to account 261000.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

ASSETS

	<u>Ledger & Non-Ledger Assets</u>	<u>Assets</u>	<u>Net Admitted Assets</u>
	<u>Non-Admitted</u>		
Bonds	\$ 5,883,355	\$ 174,330	\$ 5,709,025
Cash and short-term investments	6,029,959		6,029,959
Investment income due and accrued	106,692		106,692
Premiums in course of collection	1,662,709	78,961	1,583,748
Amounts recoverable from reinsurer	83,780		83,780
Net deferred tax asset	304,151	188,260	115,891
Furniture and equipment	849	849	0
Receivable from affiliates	475,507		475,507
Other assets nonadmitted	23,875	23,875	0
Health care receivable	<u>255,641</u>	<u>254,432</u>	<u>1,209</u>
Total Assets	<u>\$ 14,826,518</u>	<u>\$ 720,707</u>	<u>\$ 14,105,811</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<u>Current Year</u>
Claims Unpaid	\$ 4,448,402
Unpaid claims adjustment expenses	174,785
Premium received in advance	577
General expenses due or accrued	211,071
Current federal and foreign income tax payable	382,139
Payable to affiliates	NOTE 1 415,698
Escheat liability	<u>36,121</u>
Total Liabilities	<u>\$ 5,668,793</u>
Common capital stock	\$ 1,000
Gross paid in and contributed surplus	2,850,000
Unassigned funds (surplus)	<u>5,586,018</u>
Surplus as regards policyholders	<u>\$ 8,437,018</u>
Total Liabilities and Surplus	<u>\$ 14,105,811</u>

STATEMENT OF INCOME

	<u>Current Year</u>
Net premium income	\$ 28,068,399
Total Revenues	\$ 28,068,399
Hospital/medical benefits	\$ 14,615,830
Other professional services	763,958
Outside referrals	1,190,514
Emergency room and out-of-area	951,816
Prescription drugs	4,406,278
Other cost containment fees	<u>1,182</u>
Subtotal Hospital and Medical Benefits	\$ 21,929,578
Net reinsurance recoveries	(782,679)
Claim adjustment expenses	688,914
General administrative expenses	<u>1,689,984</u>
Total Underwriting Deductions	\$ 23,525,797
Net Underwriting Gain or (loss)	\$ 4,542,602
Net investment income earned	\$ 316,575
Net Investment Gains or (Losses)	\$ 316,575
Miscellaneous Other Income (Expense)	\$ 8,779
Net Income or (Loss) Before Federal Income Taxes	\$ 4,867,956
Federal and foreign income taxes incurred	<u>1,550,432</u>
Net Income (Loss)	<u>\$ 3,317,524</u>

CAPITAL AND SURPLUS

	<u>Current Year</u>
Surplus as regards policyholders, December 31, 2002	\$ 5,215,643
Net income or (loss)	3,317,524
Change in net deferred income tax	(151,113)
Change in nonadmitted assets	54,963
Net examination changes	0
Change in surplus as regards policyholders	<u>\$ 3,221,374</u>
Surplus as regards policyholders, December 31, 2003	<u>\$ 8,437,017</u>

EXAMINATION CHANGES

Surplus as regards policyholders per Company, December 31, 2003:

Common capital stock	\$ 1,000
Paid in and contributed surplus	2,850,000
Unassigned funds (surplus)	<u>5,586,017</u>
Total surplus as regards policyholders	<u>\$8,437,017</u>

	<u>Increase In Surplus</u>	<u>Decrease In Surplus</u>	
Receivable from affiliates	415,698	(415,698)	NOTE 1
Payable to affiliates	<u>415,698</u>	<u>(415,698)</u>	NOTE 1
Totals	415,698	(415,698)	
Net Examination Change		<u>0</u>	

Surplus as regards policyholders per examination, December 31, 2003:

Total surplus per Company	\$8,437,017
Net Examination Change	<u>0</u>
Total surplus per examination, December 31, 2003	<u>\$8,437,017</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1	Receivable From Affiliates	\$475,507
	Payable To Affiliates	\$415,698

The Company included negative balances of \$415,698 in the amount reported in the Annual Statement asset line 20 as Receivable From Affiliates. SSAP 64 requires that these negative balances be reported on liability line 15 as Payable To Affiliates as no valid right of offset exists between the parties to whom the amount were receivable from/payable to. As such, the amount reported by the Company of \$59,808 was increased to \$475,507 in the above financial statements upon removing the negative balances.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Comments Prior Examination – Accounts and Records

Page 4

The current examination again noted extended delays regarding company responses to examination requests. For example, the examiners sent the Company a request for copies of all December 2003 bank statements and reconciliations on September 16, 2004 (approximately 3 weeks before examination fieldwork began). Examiners did not receive copies of one of the bank statements / reconciliations until December 18, 2004, even though the examiners reminded the Company on a bi-weekly basis that this request was outstanding. Time delays were also noted on other requests, with an estimated response time of approximately two weeks per request. It is recommended that the Company take steps to improve response time to examination requests as this could significantly reduce the length of future examinations.

Transactions with Affiliates – Intracorp Agreement

Page 13

It is noted that the Company violated Section 382.195 RSMo (Prohibited transactions, exceptions) by entering the service arrangement with Intracorp without first notifying the Missouri Department of Insurance. The Company is directed to ensure that all future arrangements with affiliates meeting the provisions of Section 382.195 RSMo are appropriately filed with the Missouri Department of Insurance at least thirty days prior to entering such transactions.

Accounts and Records – Schedule Y-Part 2Page 20

It was noted that the Company did not include all revenues/expenditures incurred under management agreements, service contracts, etc. in column 8 of the 2003 Annual Statement, Schedule Y-Part 2. It is recommended that the Company follow NAIC Annual Statement Instructions which state that Column 8 of Schedule Y-Part 2 should include "all revenues/expenditures under management agreements, service contract, etc" as well as "contracts for services provided by the insurer or purchased by the insurer from other affiliates" in future Annual Statements filings.

Accounts and Records – Netting of Intercompany BalancesPage 20

It was noted that the Company incorrectly reported the net balance of amounts payable and receivable with various affiliates on asset line 20 of the 2003 Annual Statement. The Company should have reported these balances on a gross basis, as there was no valid right of offset between the entities. It is recommended that the Company only report intercompany balances on a net basis when a valid right of offset exists (in accordance with SSAP 64) in future statutory financial statements.

SUBSEQUENT EVENTS

The Company paid a dividend of \$1,900,000 on January 9, 2004. The Missouri Department of Insurance approved the payment of this dividend on December 17, 2003. The dividend was not declared until the January 2, 2004 board meeting, therefore the Company did not accrue a liability for the dividend on the 2003 Annual Statement.

The Company paid a dividend of \$3,000,000 on June 25, 2004. The Missouri Department of Insurance approved the payment of this dividend on May 25, 2004.

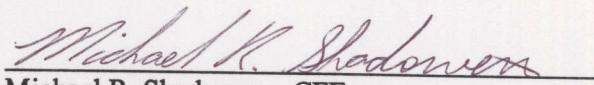
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of CIGNA HealthCare of St. Louis, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John Boczkiewicz, CPA, CFE, and Arthur L. Palmer, examiners representing the Missouri Department of Insurance, participated in this examination. MDI also engaged an independent actuary, Milliman USA, to perform a review of the Company's reserve calculations and reserving methodology.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Michael R. Shadowens, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

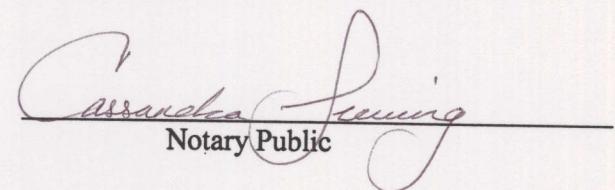


Michael R. Shadowens, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 30 day of March, 2005.

My commission expires:

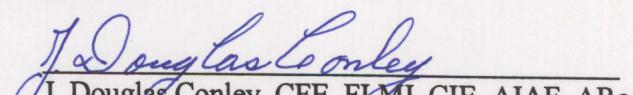
2/31/2009



Cassandra Grewing
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARE
Audit Manager, St. Louis
Missouri Department of Insurance
Midwestern Zone, National Assoc. of Ins. Commissioners

